



# Bureau of TennCare

## Policy Manual

**Policy No:** PAY 08-001

**Subject:** Addressing Issues Affecting the Actuarial Soundness of TennCare Rates

**Approval:**

**Date:** 7/3/2008

**PURPOSE:** To describe the Policy and Procedure by which TennCare can make adjustments to the rates it pays the Managed Care Contractors (MCCs) for member care, when the actuarial soundness upon which the rates are based is called into question by unexpected or unforeseeable changes in the health care arena.

**POLICY:** It is the policy of TennCare to assure that all payment rates established under risk contracts and all risk-sharing mechanisms in contracts are actuarially sound (42 CFR 438.6(c)(2)(i)). It is the responsibility of the Managed Care Contractors to responsibly manage the costs of providing healthcare to their members in accordance with their contracts with the state.

**DISCUSSION:** The success of the Managed Care model depends upon a number of factors, one of which is the use of actuarially sound rates. The state contracts with an independent actuarial firm for purposes of rate development. The actuarial firm collects and analyzes historical data on the cost and utilization of services and, using certain assumptions, develops models to predict the future costs and utilization of these services. The data from this analysis is used in establishing the rates for a particular contract period.

If the actuaries' review of the cost and utilization data for a particular period demonstrates the occurrence of an unexpected or unforeseeable change of a significant magnitude that may affect the actuarial soundness of a rate, the actuaries may recommend to the state an appropriate adjustment be made.

**PROCEDURE:** In the event that the Bureau of TennCare or the state's third-party actuary becomes aware of an unexpected change in medical costs of a magnitude great enough to potentially affect the actuarial soundness of the rates underlying the TennCare managed care plan, the following steps will be implemented.

1. TennCare at its sole discretion may decide that an evaluation of the soundness of the rates needs to be conducted.
2. TennCare, specifically the Bureau's Chief Financial Officer and the Bureau's Chief of Networks, in consultation with its third -party actuaries and the MCCs will gather all relevant data which aids in understanding the change that has occurred or is occurring in medical cost.
3. After the initial consultations, TennCare may at its sole discretion, determine that there is the likelihood that the soundness of the capitation rates is in question. Having made this determination, the Bureau's Chief Financial Officer will request that the third party actuary re-examine the rate structure in light of the most recent information on the change in medical cost.
4. Should the third-party actuary determine that the existing rates are in fact no longer actuarially sound the Bureau shall be notified of this finding. The third-party actuary will prepare the appropriate rates or adjustments, which it can then certify to the Bureau as being actuarially sound.
5. After new rates have been established, the Bureau in its sole discretion, and if necessary - after further consultation with the MCCs, will determine what if any adjustments to payments need to be made pursuant to the Contractor Risk Agreement (C.R.A.) 3.4.5 & 3.4.6. Such adjustments to payments may be made in whichever fashion deemed appropriate by the Bureau and agreed upon by the third-party actuary, including but not limited to a prospective adjustment in rates or a retrospective adjustment to payments made under the previous rate structure.

#### **DEFINITIONS:**

**Actuarial Soundness:** An actuarial sound rate is a rate that has been developed in accordance with generally accepted actuarial principles and practices, is applicable for the population served by TennCare, for the services provided by TennCare, and has been certified to be sound by an actuary who is certified by the American Academy of Actuaries.

**Capitation Rate:** A payment rate payable to an MCC, per member, for the services offered by TennCare. These rates are usually set by "cells" which are classifications of enrollees by sex, age and other factors, and paid by TennCare on a monthly basis.

**Certified Actuary:** An actuary who has met the qualifications established by the American Academy of Actuaries

**Office of Primary Responsibility:** Office of the Chief Financial Officer – TennCare

**Other Responsible Parties:** Office of the Chief Network Officer - TennCare  
The State's Third-Party Actuary

**References:**

42 CFR 438.6(c)

Middle C.R.A. 3.4.5 & 3.4.6